

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

* * * * *

In the Matter of:

GENERAL ADJUSTMENTS IN THE RATES)
OF MARYVILLE SEWERAGE SYSTEM, INC.) CASE NO. 7558

O R D E R

Preface

On August 27, 1979, Maryville Sewerage System, Inc. hereinafter referred to as the "Utility", filed with this Commission its Notice wherein the Utility proposed to increase its rates for monthly sewage disposal services provided to residents in the subdivisions of Maryville, Lone Acres, Hillview and Overdale in Bullitt County, Kentucky.

The effective date set forth in the Notice was September 16, 1979. The Commission, in order to consider the reasonableness of the proposed rates, ordered their suspension for the five (5) month period beginning September 16, 1979, and ending February 16, 1980. Under authority of KRS 278.190, the Utility began charging the proposed rates on all billings made subsequent to February 16, 1980. When the staff questioned this as billing for services rendered prior to February 16, 1980, the Utility advised the staff that it had always been its policy to bill for services in advance of the providing of service. This matter of billing in advance is addressed by this Order. The matter of refunds to customers from sewage service revenues collected from them subsequent to February 16, 1980, is also addressed by this Order.

October 25, 1979, was the date of the official hearing in this matter at the Commission's offices in Frankfort, Kentucky. All parties of interest were notified and the Consumer Protection Division of the Attorney General's Office was permitted to intervene in the matter. At the hearing, certain requests for additional information were made by the Attorney General's Office and the Commission staff. This information has been filed and made a part of the record in this matter. The entire matter is now considered to be fully submitted for a final

determination by this Commission.

Test Period

The Utility has selected the twelve (12) month period ending May 31, 1979, as the "Test-Year" and has submitted tabulations of its revenues and expenses for this period including its proforma adjustments thereto for the Commission's consideration in the determinations of rate adjustments. Said tabulations along with those found reasonable by this Commission are included in Appendix "B" of this Order.

Rate Determination

While the Commission has traditionally considered the original cost of utility plant, depreciation of the plant, the net investment, the capital structure, the cost of reproduction, and the going concern in the determination of fair, just, and reasonable rates, its experience in the establishment or adjustment of rates for sewage utilities has indicated that these valuation methods are not always appropriate. Sewage utilities are unique to the extent that the cost of facilities has usually been included in the cost of the individual lot. The owner and/or operator of the utility is, in many instances, the developer of the real estate. There are numerous instances of title changing hands prior to the effective date of Commission jurisdiction (January 1, 1975). Further, the Commission has found that the books, records and accounts of many of these utilities are incomplete. In such instances, the fixing of rates on the above methods of valuation is impossible. The Commission is, therefore, of the opinion that the "Operating Ratio Method"⁽¹⁾ should be utilized in ratemaking determinations for sewage utilities although it is recognized that there may be instances where another method could be more valid.

Findings In This Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That in this instance, the determination of rates and revenue requirements should be based on the operating ratio method.

(1) Operating ratio is defined as the ratio of expenses, including depreciation and taxes to gross revenues.

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

2. That the Utility pursuant to KRS 278.190 notified the Commission of its intent to adjust its single-family residential rate from \$5.75 to \$12.00 and its commercial rate from \$11.50 to \$24.00 to become effective September 16, 1979. Further, that the Commission, by its Order to suspend the proposed rates for a five-month period beginning September 16, 1979, established February 16, 1980, as the date that the Utility could begin charging its proposed rates. Further, that on or after February 16, 1980, the Utility did begin charging its proposed rates.

3. That February 16, 1980 is the date on which the rates fixed by this Order should become effective.

4. That the rates set forth in Appendix "A", attached hereto and made a part hereof, should produce annual revenues of approximately \$225,775 from 2,025 customers and are the fair, just, and reasonable rates to be charged by the Utility for sewage disposal services.

5. That the revenues produced by the rates approved herein should result in an operating ratio of .88 and should provide a reasonable return margin⁽²⁾ in this instance.

6. That the rates proposed by the Utility are unfair, unjust, and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

7. That the Commission, after consideration of the tabulation of test-year and proforma revenues and expenses submitted by the Utility, concludes that these revenues, expenses and adjustments thereto can be summarized as shown in Appendix "B", attached hereto and made a part hereof. On the basis of the said Appendix "B" tabulation, the Commission further concludes that annual revenues in the amount of \$224,775 are necessary and will permit the Utility to meet its reasonable expenses for providing sewage collection and disposal services to 2,025 customers.

8. That the Utility bills its customers for services, to be provided rather than for services that have been provided. Further, that its billing and collecting agent⁽³⁾ bills on a bi-monthly basis;

(2) Return margin is the amount remaining for the payment of a return on the investment of the security holders.

(3) Billing and Collecting for the Utility is done by the Louisville Water Company.

and this results in billing for services to be provided two (2) months in advance of the billing date. The Commission is of the opinion and finds that billing two (2) months in advance is unreasonable and should be discontinued. The Commission will, however, permit the Utility to bill one (1) month in advance. Bi-monthly billings should, therefore, represent the combination of one (1) month for services rendered and one (1) month for services to be rendered.

9. That the Utility should refund all sewage service revenues collected subsequent to February 16, 1980 that are in excess of those which would have been collected from the rates fixed by this Order. Further, that the Utility shall file with this Commission, within thirty (30) days of the date of this Order, a report of refund amounts due its customers and shall complete said refunds within ninety (90) days of the date of this Order.

Orders In This Matter

The Commission on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the rates set forth in Appendix "A" attached hereto and made a part hereof be and they are hereby fixed as the fair, just, and reasonable rates of the Utility for providing sewage disposal services to its customers located in Bullitt County, Kentucky, to become effective for the Utility's billing for services on or after February 16, 1980.

IT IS FURTHER ORDERED that the rates sought by the Utility be and the same are hereby denied.

IT IS FURTHER ORDERED that the Utility file with this Commission within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Utility's Rules and Regulations for providing services to its customers shall be filed with said tariff sheets.

IT IS FURTHER ORDERED that the Utility shall revise its billing procedures to limit its billings for services in advance of the providing of said service to a maximum on one (1) month; all in accordance with "Finding No. 8" herein. Further, that a report of compliance on this matter shall be filed with this Commission within thirty (30) days of the date of this Order.

IT IS FURTHER ORDERED that the Utility shall file with this Commission, within thirty (30) days of the date of this Order, a report of refund amounts due its customers and shall complete said refunds within ninety (90) days of the date of this Order.

Done at Frankfort, Kentucky, this 27th day of June, 1980.

UTILITY REGULATORY COMMISSION

CHAIRMAN

VICE-CHAIRMAN

COMMISSIONER

ATTEST:

SECRETARY

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7558 DATED JUNE 27, 1980

The following rates are prescribed for sewage disposal services rendered to all customers served by the Maryville Sewerage System, Inc., in Bullitt County, Kentucky. All other rates and charges not mentioned specifically herein shall remain the same as those in effect under approval of this Commission prior to February 16, 1980.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single Family Residential	\$ 9.25 per Residence
Multi-Family Residential	6.95 per Dwelling Unit
All other	18.50 per Residential (1) Equivalent

(1) The number of residential equivalents and/or fractional parts thereof shall be determined by dividing the customer's average monthly water consumption in gallons by 12,000 gallons. The minimum bill for this type of service shall be \$9.25.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7558 DATED JUNE 27, 1980.

In accordance with Finding No. 7, the following tabulation is the Commission summary of the "Test-Year" and annual proforma revenues and expenses for the Utility's 936,800(1) GPD sewage collection and treatment systems for providing service to test-year and proforma customers.

	Test Year(2) Ending 5/31/79	Proforma(2) Requested	Proforma Found Reasonable
(No. of Customers)	(2,004)	(2,004)	(2,025)(3)
<u>Revenues:</u>			
1. Sewage Services	\$137,302	\$279,182	\$224,775
2. Interest	230	-0-	-0-
Total Revenues	\$137,532	\$279,182	\$224,775
<u>Expenses:</u>			
1. Operations & Maintenance			
a) Wages	\$ 52,743	\$ 56,962	\$ 56,962
b) Utilities (Elec. & Gas)	31,744	35,870	31,744(4)
c) Utilities (Water)	4,051	6,075	4,051(4)
d) Chemicals	3,448	3,965	3,965
e) Misc. Supplies & Expenses	1,090	1,221	1,090
f) Gasoline & Truck	3,690	5,329	5,329
g) Sludge Hauling	6,500	16,800	16,800
h) Maintenance	7,598	4,500	4,500
i) Repairs	6,575	17,752	7,150(5)
2. Billing & Collecting	\$ 5,243	\$ 8,525	\$ 7,940(6)
3. Administrative & General			
a) Salaries	\$ 8,900	\$ 9,600	\$ 8,900(4)
b) Office - Misc.	629	704	704
c) Accounting	2,741	2,700	2,700
d) Legal Services	-0-	1,200	1,200
e) Amortization-Case #7558	-0-	1,250	833(7)
f) Engineer-EPA Monitoring	-0-	600	600
g) Insurance	5,936	6,350	5,936(4)
h) Telephone	2,415	2,424	2,424
4. Depreciation	\$ 10,754	\$ 9,400	\$ 9,400
5. Taxes:			
a) Operating	\$ 7,178	\$ 7,300	\$ 7,178(4)
b) Income-Federal	-0-	8,323	5,019(8)
c) Income-State	-0-	1,890	913(8)
6. Reserve Fund	\$ -0-	\$ 18,565	\$ -0-(9)
Subtotal	\$	\$227,296	\$184,898
7. Interest:			
a) Long-Term Debt	\$ 28,374	\$ 33,400	\$ 14,937(10)
b) Other	-0-	-0-	-0-
Total Expenses	\$189,609	\$260,696	\$200,271
Net Income (Loss)	(\$ 52,077)	\$ 18,486	\$ 24,504

APPENDIX "B" FOOTNOTES

(1) The 936,800 GPD total capacity includes four separate plants at four locations with approximate capacities of 231,000 GPD, 317,800 GPD, 148,000 GPD, and 240,000 GPD.

(2) "Test-Year" and "Proforma Requested" income and expenses were taken from the Utility's Comparative Income Statement.

(3) The Commission finds that 2,025 is the appropriate number of proforma customers.

(4) Items 1(b) - Electricity and Gas; 1(c) - Water; 1(e) - Misc. Supplies and Expenses; 3(a) Salaries; 3(g) - Insurance and 5(a) Operating Taxes, were collectively reduced to the amounts shown for the test-year as the Utility failed to sufficiently justify the requested proforma increases. The inflation factor and projected increases presented by the Utility were speculative, at best, and were not considered by this Commission to be reasonable, known, and measurable adjustments to test-year expenses.

(5) The \$17,752 proforma requested for Item 1(i) - Repairs was reduced by the \$10,602 expended for replacement of pumps. Since the pumps have a longer life than one year, they should not be expensed; but should be capitalized and depreciated.

(6) The \$7,936 found reasonable for Item 2 - Billing and Collecting represents apportionment of the bi-monthly billing cost for combined billing for both water and sewage services by the Louisville Water Company. Apportionment of the cost is based on the \$9.25 monthly rate and the average water bill.

(7) Amortization of the expenses for this case over a three year period in accordance with URC policy results in an allowance of \$833 for rate-case expenses.

(8) The proforma allowed for income taxes is based on the taxable income that should be realized from the rates fixed by this Order.

(9) The requested \$18,565 for a "Reserve Fund" was denied as the Commission does not consider such a fund appropriate for inclusion in the rate-making process.

(10) The proforma allowance for interest on long-term debt was reduced by 9.0% of \$212,000 or \$19,080 to \$14,937. Mr. Walzer's testimony (T.E., P. 63) states that the \$212,000 was for development cost and the Commission finds that interest thereon should not be borne by the Utility's customers.